

**FLOYD VALLEY HOME MEDICAL
EQUIPMENT**

FLOYD VALLEY HOME MEDICAL EQUIPMENT

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Floyd Valley Home Medical Equipment
Le Mars, Iowa

We have audited the accompanying balance sheets of **Floyd Valley Home Medical Equipment**, as of June 30, 2008 and 2007, and the related statements of income and partners' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Floyd Valley Home Medical Equipment**, as of June 30, 2008 and 2007, and the results of its income and changes in partners' equity, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 31, 2008 on our consideration of **Floyd Valley Home Medical Equipment's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Eide Bailly LLP

Dubuque, Iowa
October 31, 2008

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FLOYD VALLEY HOME MEDICAL EQUIPMENT
BALANCE SHEETS
JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 21,783	\$ 208,637
Receivables		
Trade, less allowance for doubtful accounts		
and contractual allowances of \$22,680		
in 2008 and \$22,866 in 2007	92,185	73,812
Related party	112,922	-
Inventories	48,908	49,394
Prepaid expenses	963	1,391
	<u>276,761</u>	<u>333,234</u>
Total current assets		
	276,761	333,234
PROPERTY AND EQUIPMENT	<u>60,054</u>	<u>82,326</u>
Total assets	<u>\$ 336,815</u>	<u>\$ 415,560</u>
LIABILITIES AND PARTNERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable		
Trade	\$ 330	\$ 654
Related party	10,065	31,142
Accrued expenses	210	141
	<u>10,605</u>	<u>31,937</u>
Total current liabilities		
	10,605	31,937
PARTNERS' EQUITY	<u>326,210</u>	<u>383,623</u>
Total liabilities and partners' equity	<u>\$ 336,815</u>	<u>\$ 415,560</u>

FLOYD VALLEY HOME MEDICAL EQUIPMENT
STATEMENTS OF INCOME AND PARTNERS' EQUITY
YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
REVENUES		
Retail sales	\$ 137,635	\$ 137,296
Rental fees	365,189	383,236
Gross revenues	502,824	520,532
Less: Returns, contractual adjustments, and allowances	97,846	97,316
Net revenues	404,978	423,216
COST OF REVENUES	111,656	116,704
GROSS PROFIT	293,322	306,512
OPERATING EXPENSES		
Contract labor	117,247	99,870
Management fees	53,118	55,552
Rent	14,676	16,156
Advertising	1,661	1,546
Other	14,119	16,110
Insurance	2,354	2,850
Depreciation	2,705	4,987
Provision for bad debts	3,643	8,476
Total operating expenses	209,523	205,547
OPERATING INCOME	83,799	100,965
OTHER INCOME		
Interest income	1,788	2,109
NET INCOME	\$ 85,587	\$ 103,074
PARTNERS' EQUITY, BEGINNING OF YEAR	\$ 383,623	\$ 280,549
Net income	85,587	103,074
Distributions to shareholders	(143,000)	-
PARTNERS' EQUITY, END OF YEAR	\$ 326,210	\$ 383,623

FLOYD VALLEY HOME MEDICAL EQUIPMENT
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
OPERATING ACTIVITIES		
Cash received from customers	\$ 270,040	\$ 424,759
Cash paid to suppliers	<u>(309,897)</u>	<u>(268,421)</u>
NET CASH (USED FOR) FROM OPERATING ACTIVITIES	<u>(39,857)</u>	<u>156,338</u>
INVESTING ACTIVITIES		
Interest earned on cash and cash equivalents	1,788	2,109
Purchases of property and equipment	<u>(5,785)</u>	<u>-</u>
NET CASH (USED FOR) FROM INVESTING ACTIVITIES	<u>(3,997)</u>	<u>2,109</u>
NET CASH USED FOR FINANCING ACTIVITIES		
Distributions to shareholders	<u>(143,000)</u>	<u>-</u>
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(186,854)	158,447
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>208,637</u>	<u>50,190</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 21,783</u>	<u>\$ 208,637</u>
RECONCILIATION OF NET INCOME TO		
NET CASH FROM OPERATING ACTIVITIES		
Operating income	\$ 83,799	\$ 100,965
Charges and credits to net income		
not affecting cash		
Depreciation	29,195	34,567
Provisions for losses on accounts receivable	(186)	5,441
(Gain) loss on disposal of equipment	(1,138)	1,286
Change in assets and liabilities		
Receivables	(131,109)	4,578
Inventories	486	(3,837)
Prepaid expenses	428	68
Accounts payable	(21,401)	13,309
Accrued expenses	<u>69</u>	<u>(39)</u>
NET CASH (USED FOR) FROM OPERATING ACTIVITIES	<u>\$ (39,857)</u>	<u>\$ 156,338</u>

FLOYD VALLEY HOME MEDICAL EQUIPMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Principal Business Activity

Floyd Valley Home Medical Equipment, ("Company") a joint venture organized under Section 28E of the Code of Iowa, sells and rents durable medical equipment and supplies to individuals in the community of Lemars, Iowa and its surrounding area.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable are uncollateralized customer and third-party payor obligations. Unpaid receivables, excluding amounts due from third-party payors, with invoice dates over 90 days old have interest assessed at 1 percent per month. These interest charges are recognized as income when charged.

Payments of accounts receivable are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of accounts receivable is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from customers and third-party payors. Management reviews receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients and residents due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

Inventories

Inventories are valued at the lower of cost (first-in, first-out) or market.

Property and Equipment

Property and equipment, excluding rental equipment, in excess of \$1,000, are capitalized and recorded at cost. Depreciation is computed using straight-line method over the following estimated useful lives:

Equipment	5 - 15 years
Rental equipment	4 - 5 years

NOTES TO FINANCIAL STATEMENTS

Income Taxes

The joint venture is not subject to income taxes. Instead, the Company files Form 1065 with the Internal Revenue Service and distributes K-1's to the partners, who in turn report their proportionate share of income individually.

Advertising Costs

The Company expenses advertising costs as incurred.

NOTE 2 - PROPERTY AND EQUIPMENT

A summary of equipment at June 30, 2008 and 2007, is as follows:

	2008		2007	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Equipment	\$ 27,985	\$ 24,739	\$ 27,985	\$ 22,033
Rental equipment	181,625	124,817	173,641	97,267
	<u>\$ 209,610</u>	<u>\$ 149,556</u>	<u>\$ 201,626</u>	<u>\$ 119,300</u>
Net property and equipment		<u>\$ 60,054</u>		<u>\$ 82,326</u>

NOTE 3 - LEASES

The Company leases building space under a lease agreement. The lease is classified as an operating lease and expires in August 2008. Generally, the Company is required to pay executory costs such as maintenance and insurance. Total rental expense for the building space was \$14,676 and \$16,156 for the years ended June 30, 2008 and 2007.

Minimum future lease payments of \$2,580 are due for the non-cancelable operating lease during the year ended June 30, 2009.

NOTE 4 - RELATED PARTY TRANSACTIONS

Floyd Valley Home Medical Equipment is a joint venture between Floyd Valley Hospital and Avera Home Medical Equipment. Transactions between these organizations were as follows for the years ended June 30, 2008 and 2007:

	2008	2007
Contract labor	\$ 117,247	\$ 99,870
Management fees	53,118	55,552
Rent expense	14,676	16,156

NOTES TO FINANCIAL STATEMENTS

NOTE 5 - CONCENTRATIONS OF CREDIT RISK

The Company grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at June 30, 2008 and 2007, was as follows:

	<u>2008</u>	<u>2007</u>
Medicare	11%	24%
Medicaid	12%	7%
Blue Cross	22%	22%
Commercial insurance	22%	21%
Other third-party payors and customers	<u>33%</u>	<u>26%</u>
	<u>100%</u>	<u>100%</u>

The Company's cash balance is maintained in a bank deposit account. At various times during the years ended June 30, 2008 and 2007, the balance of these deposits was in excess of federally insured limits.

FLOYD VALLEY HOME MEDICAL EQUIPMENT

SUPPLEMENTAL REPORT ON INTERNAL CONTROL STRUCTURE AND COMPLIANCE



**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

The Board of Directors
Floyd Valley Home Medical Equipment
Le Mars, Iowa

We have audited the financial statements of **Floyd Valley Home Medical Equipment**, as of and for the year ended June 30, 2008, and have issued our report thereon dated October 31, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Company's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operations that we consider to be a significant deficiency. Significant deficiencies involve matters coming to our attention relating to deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Company's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The significant deficiency is described in the accompanying Schedule of Findings as Finding No. 04-1. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be significant deficiencies. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operations that we consider to be material weaknesses.

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Compliance

As part of obtaining reasonable assurance about whether the Company's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the Board of Directors, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Eide Bailly LLP

Dubuque, Iowa
October 31, 2008

**FLOYD VALLEY HOME MEDICAL EQUIPMENT
SCHEDULE OF CURRENT AND PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEARS ENDED JUNE 30, 2008 AND 2007**

CURRENT YEAR AUDIT FINDINGS:

FINDING NO. 04-1 – Segregation of Duties

Condition: The Company has a limited number of office personnel and, accordingly, does not have adequate internal accounting controls in certain areas because of a lack of segregation of duties.

Criteria: A good system of internal accounting control contemplates an adequate segregation of duties so that not one individual handles a transaction from its inception to its completion.

Effect: Inadequate segregation of duties could adversely affect the Company's ability to detect misstatements that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

Recommendation: While we recognize that your office staff may not be large enough to assure optimal internal control, it is important that you are aware of this condition. Under this condition, management's close supervision and review of accounting information is the best means of preventing and detecting errors and irregularities.

Response: Management does not plan to respond to the finding, as management believes it is not possible to implement a cost effective solution at this time.

* * * * *

PRIOR YEAR AUDIT FINDING:

Finding 04-1 "Segregation of Duties" has been repeated for the year ended June 30, 2008.